

AMENDED IN SENATE JULY 23, 2003

AMENDED IN SENATE JUNE 10, 2003

CALIFORNIA LEGISLATURE—2003–04 REGULAR SESSION

ASSEMBLY BILL

No. 1729

Introduced by Committee on Insurance (Vargas (Chair), Calderon, Chavez, Correa, Diaz, Dutra, Jerome Horton, Koretz, Nakano, and Ridley-Thomas)

March 4, 2003

An act to amend ~~Sections 985, Section 63071 of, and to add Article 8 (commencing with Section 63049.6) to Chapter 2 of Division 1 of Title 6.7 of, the Government Code, and to amend Sections 985, 1063, 1063.50, 1063.52, 1063.53, 1063.54, 1063.55, and 1063.67 of the Insurance Code, relating to insolvency, and making an appropriation therefor.~~

LEGISLATIVE COUNSEL'S DIGEST

AB 1729, as amended, Committee on Insurance. Insurance: insolvency.

Existing law establishes the California Insurance Guarantee Association (CIGA) for specified purposes related to the payment of the obligations of insurers. Existing law establishes the California Infrastructure and Economic Development Bank for specified purposes related to the financing of projects in the public interest. Existing law requires that entities applying for financing from the bank meet various requirements, and places certain limitations on the bank's approval of projects.

This bill would provide that a project for the financing of the costs of claims of insolvent workers' compensation insurers at the request of CIGA shall be deemed to be in the public interest and eligible for financing by the bank. It would provide that the requirements and limitations applicable to the financing of certain projects do not apply to the financing of the costs of these claims. The bill would allow the bank to issue bonds to finance these costs and would specify how the bond proceeds may be used.

Existing law provides that the total amount of revenue bonds issued by the bank that may be outstanding at any one time shall not exceed \$5,000,000,000, exclusive of rate reduction bonds, as defined, and certain bonds issued by the bank to finance economic development facilities, as defined.

This bill would provide, instead, that the total amount of bonds issued by the bank to finance public development facilities, as defined, that may be outstanding at any one time shall not exceed \$5,000,000,000.

Existing law requires the Insurance Commissioner to take possession of the property, business, books, records, and accounts of an insurer if it appears to the commissioner that the insurer is insolvent, and to retain them subject to a court order. Existing law requires a court, upon a filing by the commissioner showing the insolvency of an insurer, to issue an order vesting title to all of the insurer's assets in the commissioner. Existing law defines "insolvency" for these purposes to mean any impairment of minimum paid-in capital, as defined, required in the aggregate of an insurer by specified provisions of law for the classes of insurance that it transacts.

This bill would expand the definition of "insolvency" to include, in addition, an inability of the insurer to meet its financial obligations when they are due.

Existing law requires CIGA to adopt a plan of operations, and any amendments thereto, as specified, and allows CIGA to borrow funds when necessary to carry out its mandate.

This bill would, in addition, allow CIGA to provide in its plan of operations for the issuance of specified financing instruments and for securing those instruments.

Existing law authorizes ~~the California Insurance Guarantee Association (CIGA)~~ CIGA to pay certain claims of insolvent insurers that arise as a result of a natural disaster, and *allows the Department of Insurance* to issue bonds for that purpose. Existing law requires that proceeds from these bonds be deposited in the Insurance Assessment

Bond Fund, and provides that all money in the fund is continuously appropriated to the ~~Department of Insurance~~ *department* for the purposes of these provisions. Existing law allows the department to *levy assessments upon insurers and to* pledge money in the fund as security for payment of the principal of, and interest and redemption premiums, if any, on these bonds. Existing law prohibits the total bonded indebtedness authorized by these provisions from exceeding the level that can be supported by the revenues dedicated to retiring the bonds.

This bill would, in addition, authorize ~~CIGA~~ *the department* to issue bonds to pay claims and related expenses that arise as a result of the insolvencies of insurance companies providing workers' compensation insurance. It would require that any bonds for this purpose be issued prior to January 1, ~~2005~~ 2007, *in an aggregate principal amount not to exceed \$1,500,000,000*, and that any bonds issued to refund those bonds not have a ~~term~~ *final maturity* exceeding the ~~term~~ *final maturity* of the original bonds issued. *The bill would require that assessments for this purpose be collected only from insurers providing the category of insurance for which the bonds are issued. It would allow the bonds to be issued by the California Infrastructure and Economic Development Bank, upon request by the department or CIGA.* The bill would prohibit a bond issued for this purpose from maturing more than ~~10~~ 13 years from the date of its issue, and would allow the ~~Department of Insurance~~ *department* to enter into or authorize ancillary obligations or derivative agreements to manage interest rate risk or security features related to the bonds.

The bill would allow the department, in addition to the purposes described above, to pledge money in the Insurance Assessment Bond Fund for reserve funds established as security for these bonds. By authorizing a new use for money deposited in a continuously appropriated fund, this bill would make an appropriation.

The bill would eliminate the restriction on the amount of total bonded indebtedness authorized by these provisions.

The bill would make related changes.

Vote: majority. Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.



The people of the State of California do enact as follows:

SECTION 1. *Article 8 (commencing with Section 63049.6) is added to Chapter 2 of Division 1 of Title 6.7 of the Government Code, to read:*

Article 8. Financing of Insurance Claims

63049.6. *For purposes of this article, the following terms have the following meanings, in addition to the definitions contained in Section 63010, unless the context clearly indicates or requires another meaning:*

(a) *“Association” means the California Insurance Guaranty Association created pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the Insurance Code.*

(b) *“Department” means the Department of Insurance.*

(c) *“Fund” means the Insurance Assessment Bond Fund created by Section 1063.52 of the Insurance Code.*

63049.62. *Notwithstanding any other provision of this division, a financing of the costs of claims of insolvent insurers upon the request of the association pursuant to Section 1063.53 of the Insurance Code shall be deemed to be in the public interest and eligible for financing by the bank, and Article 3 (commencing with Section 63041), Article 4 (commencing with Section 63042), Article 5 (commencing with Section 63043), Article 6 (commencing with Section 63048), and Article 7 (commencing with Section 63049) shall not apply to the financing provided by the bank to, or at the request of, the association or the department in connection with the fund. Notwithstanding any other provision of this division, the bank shall have no authority over any matter that is subject to the approval of the Insurance Commissioner under Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the Insurance Code.*

63049.64. (a) *The bank may issue bonds pursuant to Chapter 5 (commencing with Section 63070) and may loan the proceeds thereof to the department or the association, deposit the proceeds into the fund, or use the proceeds to refund bonds previously issued under this article. Bond proceeds may also be used to fund*

1 *necessary reserves, capitalized interest, credit enhancement costs,*
2 *or costs of issuance.*

3 (b) *Except as may be provided in the governing documents with*
4 *respect to bond anticipation notes, each of the bonds issued under*
5 *this article shall, to the extent provided in the governing*
6 *documents, be payable from, and secured by, all or a portion of the*
7 *revenues in the fund and the assets of the fund or other funds or*
8 *assets of the association or department to the extent that the fund,*
9 *the revenues, or the assets are pledged by the association or the*
10 *department for those purposes.*

11 (c) *Bonds issued under this article shall not be deemed to*
12 *constitute a debt or liability of the state or of any political*
13 *subdivision thereof, other than the bank and the association or*
14 *department to the extent that either is the conduit borrower; or a*
15 *pledge of the faith and credit of the state or of any political*
16 *subdivision, but shall be payable solely from the fund and other*
17 *revenues and assets pledged thereto. All bonds issued under this*
18 *article shall contain on the face of the bonds a statement to that*
19 *effect.*

20 (d) *For purposes of this article, the term “participating party,”*
21 *as defined in subdivision (o) of Section 63010, shall include the*
22 *association and the department, and each of these participating*
23 *parties shall also be deemed to be the same entity as the sponsor*
24 *for any financing pursuant to this article.*

25 (e) *For purposes of this article, the term “project,” as defined*
26 *in subdivision (p) of Section 63010, shall include financing of the*
27 *costs of claims of insolvent workers’ compensation insurers, in an*
28 *amount (together with associated costs of financing) that may be*
29 *determined by the association or the department in making a*
30 *request for financing to the bank.*

31 SEC. 2. *Section 63071 of the Government Code is amended to*
32 *read:*

33 63071. (a) *Notwithstanding any other provision of law, but*
34 *consistent with Sections 1 and 18 of Article XVI of the California*
35 *Constitution, a sponsor may issue bonds for purchase by the bank*
36 *pursuant to a bond purchase agreement. The bank may issue bonds*
37 *or authorize a special purpose trust to issue bonds. These bonds*
38 *may be issued pursuant to the charter of any city or any city and*
39 *county that authorized the issuance of these bonds as a sponsor and*
40 *may also be issued by any sponsor pursuant to the Revenue Bond*

1 Law of 1941 (Chapter 6 (commencing with Section 54300) of
2 Division 2 of Title 5) to pay the costs and expenses pursuant to this
3 title, subject to the following conditions:

4 (1) With the prior approval of the bank, the sponsor may sell
5 these bonds in any manner as it may determine, either by private
6 sale or by means of competitive bid.

7 (2) Notwithstanding Section 54418, the bonds may be sold at
8 a discount at any rate as the bank and sponsor shall determine.

9 (3) Notwithstanding Section 54402, the bonds shall bear
10 interest at any rate and be payable at any time as the sponsor shall
11 determine with the consent of the bank.

12 (b) The total amount of bonds *issued to finance public*
13 *development facilities* that may be outstanding at any one time
14 under this chapter shall not exceed five billion dollars
15 (\$5,000,000,000), ~~exclusive of rate reduction bonds and bonds~~
16 ~~issued by the bank pursuant to Article 5 (commencing with Section~~
17 ~~63043) of Chapter 2 to finance economic development facilities.~~
18 The total amount of rate reduction bonds that may be outstanding
19 at any one time under this chapter shall not exceed ten billion
20 dollars (\$10,000,000,000).

21 (c) Bonds for which moneys or securities have been deposited
22 in trust, in amounts necessary to pay or redeem the principal,
23 interest, and any redemption premium thereon, shall be deemed
24 not to be outstanding for purposes of this section.

25 *SEC. 3. Section 985 of the Insurance Code is amended to*
26 *read:*

27 985. (a) On or after January 1, 1970, as used in this article and
28 in subdivision (i) of Section 1011, “insolvency” means either of
29 the following:

30 (1) Any impairment of minimum “paid-in capital” or “capital
31 paid in,” as defined in Section 36, required in the aggregate of an
32 insurer by the provisions of this code for the class, or classes, of
33 insurance that it transacts anywhere.

34 (2) An inability of the insurer to meet its financial obligations
35 when they are due.

36 (b) On or after January 1, 1970, an insurer cannot escape the
37 condition of insolvency by being able to provide for all its
38 liabilities and for reinsurance of all outstanding risks. An insurer
39 must also be possessed of additional assets equivalent to such
40 aggregate “paid-in capital” or “capital paid in” required by this

code after making provision for all such liabilities and for such reinsurance.

(c) On or after October 1, 1967, as used in this code provision for reinsurance of all outstanding risks and “gross premiums without any deduction, received and receivable upon all unexpired risks” means the greater of: (1) the aggregate amount of actual unearned premiums, or (2) the amount reasonably estimated as being required to reinsure in a solvent admitted insurer the unexpired terms of the risks represented by all outstanding policies.

(d) On or after October 1, 1967, an insurer must make provision for reinsurance of the outstanding risk on policies that provide premiums are fully earned at inception and on policies that for any other reason do not provide for a return premium to the insured on cancellation prior to expiration.

(e) On or after October 1, 1967, the commissioner shall prescribe standards for reasonably estimating the amount required to reinsure that will provide adequate safeguards for the policyholders, creditors and the public.

(f) On or after October 1, 1967, this section shall not be applicable to life, title, mortgage or mortgage guaranty insurers.

(g) In the application of this section to disability insurance, as defined in Section 106, reserves for unearned premiums and amounts reasonably estimated as required to reinsure outstanding risks shall be determined in accordance with the provisions of Section 997.

~~SEC. 2.~~

SEC. 4. Section 1063 of the Insurance Code is amended to read:

1063. (a) Within 60 days after the original effective date of this article, all insurers, including reciprocal insurers, admitted to transact insurance in this state of any or all of the following classes only in accordance with the provisions of Chapter 1 (commencing with Section 100) of Part 1 of this division: fire (see Section 102), marine (see Section 103), plate glass (see Section 107), liability (see Section 108), workers’ compensation (see Section 109), common carrier liability (see Section 110), boiler and machinery (see Section 111), burglary (see Section 112), sprinkler (see Section 114), team and vehicle (see Section 115), automobile (see Section 116), aircraft (see Section 118), and miscellaneous (see

1 Section 120), shall establish the California Insurance Guarantee
2 Association (the association); provided, however, this article shall
3 not apply to the following classes or kinds of insurance: life and
4 annuity (see Section 101), title (see Section 104), fidelity or surety
5 including fidelity or surety bonds, or any other bonding
6 obligations (see Section 105), disability or health (see Section
7 106), credit (see Section 113), mortgage (see Section 117),
8 mortgage guaranty, insolvency or legal (see Section 119),
9 financial guaranty or other forms of insurance offering protection
10 against investment risks (see Section 124), the ocean marine
11 portion of any marine insurance or ocean marine coverage under
12 any insurance policy including the following: the Jones Act (46
13 U.S.C. Sec. 688), the Longshore and Harbor Workers'
14 Compensation Act (33 U.S.C. Sec. 901 et seq.), or any other
15 similar federal statutory enactment, or any endorsement or policy
16 affording protection and indemnity coverage, or reinsurance as
17 defined in Section 620, or fraternal fire insurance written by
18 associations organized and operating under Sections 9080 to 9103,
19 inclusive. Any insurer admitted to transact only those classes or
20 kinds of insurance excluded from this article shall not be a member
21 insurer of the association. Each ~~such~~ insurer *admitted to transact*
22 *a class of insurance included in this article*, including the State
23 Compensation Insurance Fund, as a condition of its authority to
24 transact insurance in this state, shall participate in the association
25 whether established voluntarily or by order of the commissioner
26 after the elapse of 60 days following the original effective date of
27 this article in accordance with rules to be established as provided
28 in this article. It shall be the purpose of the association to provide
29 for each member insurer insolvency insurance as defined in
30 Section 119.5.

31 (b) The association shall be managed by a board of governors,
32 composed of nine member insurers, each of which shall be
33 appointed by the commissioner to serve initially for terms of one,
34 two, or three years and thereafter for three-year terms so that three
35 terms shall expire each year on December 31, and shall continue
36 in office until his or her successor shall be appointed and qualified.
37 At least five members of the board shall be domestic insurers. At
38 least three ~~such of the~~ members shall be stock insurers, and at least
39 three shall be nonstock insurers. The nine members shall be
40 representative, as nearly as possible, of the classes of insurance and



1 of the kinds of insurers covered by this article. In case of a vacancy
2 for any reason on the board, the commissioner shall appoint a
3 member insurer to fill the unexpired term. In addition to the nine
4 member insurers, the membership of the board shall also include
5 one public member appointed by the President pro Tempore of the
6 Senate, one public member appointed by the Speaker of the
7 Assembly, one business member appointed by the commissioner,
8 and one labor member appointed by the commissioner.

9 (c) The association shall adopt a plan of operations, and any
10 amendments thereto, not inconsistent with the provisions of this
11 article, necessary to assure the fair, reasonable, and equitable
12 manner of administering the association, and to provide for other
13 matters as are necessary or advisable to implement the provisions
14 of this article. The plan of operations and any amendments thereto
15 shall be subject to prior written approval by the commissioner. All
16 members of the association shall adhere to the plan of operation.

17 (d) If for any reason the association fails to adopt a suitable plan
18 of operation within 90 days following the original effective date
19 of this article, or if at any time thereafter the association fails to
20 adopt suitable amendments to the plan of operation, the
21 commissioner shall after hearing adopt and promulgate reasonable
22 rules as are necessary or advisable to effectuate the provisions of
23 this chapter. These rules shall continue in force until modified by
24 the commissioner after hearing or superseded by a plan of
25 operation, adopted by the association and approved by the
26 commissioner.

27 (e) In accordance with its plan of operation, the association
28 may designate one or more of its members as a servicing facility,
29 but a member may decline this designation. Each servicing facility
30 shall be reimbursed by the association for all reasonable expenses
31 it incurs and for all payments it makes on behalf of the association.
32 Each servicing facility shall have authority to perform any
33 functions of the association that the board of governors lawfully
34 may delegate to it and to do so on behalf of and in the name of the
35 association. The designation of servicing facilities shall be subject
36 to the approval of the commissioner.

37 (f) The association shall have authority to borrow funds when
38 necessary to effectuate the provisions of this article, *and may*
39 *provide in its plan of operations for any of the following:*



1 (1) *The issuance of notes, bonds, or debentures, or the*
2 *establishment of a special purpose trust or other entity, solely for*
3 *the purpose of facilitating a financing.*

4 (2) *The securing of that borrowing or those notes, bonds, or*
5 *debentures by pledging or granting liens or mortgages, or by*
6 *otherwise encumbering its real or personal property, including,*
7 *but not limited to, premiums levied under Section 1063.5.*

8 (g) The association, either in its own name or through servicing
9 facilities, may be sued and may use the courts to assert or defend
10 any rights the association may have by virtue of this article as
11 reasonably necessary to fully effectuate the provisions thereof.

12 (h) The association shall have the right to intervene as a party
13 in any proceeding instituted pursuant to Section 1016 wherein
14 liquidation of a member insurer as defined in Section 1063.1 is
15 sought.

16 (i) (1) The association shall have an annual audit of its
17 financial condition conducted by an independent certified public
18 accountant. The audit shall be conducted, to the extent possible, in
19 accordance with generally accepted auditing standards (GAAS)
20 and the report of the audit shall be submitted to the commissioner.

21 (2) The association shall annually audit at least one-third of the
22 service companies retained by the association to adjust claims of
23 insolvent insurers. The audits shall (A) assure that all covered
24 claims are being investigated, adjusted, and paid in accordance
25 with customary industry standards and practices and all applicable
26 statutes, rules and regulations, and (B) examine the management
27 and supervisory systems overseeing the claims functions. The
28 audits shall be conducted by the association or an independent
29 auditor, provided that the three largest service companies, as
30 measured by the number of claims processed for the association
31 during the previous three fiscal years, shall be audited by an
32 independent auditor at least once every three years. The
33 association shall implement systems to retain independent
34 auditing firms for the purpose of this paragraph, provided that no
35 one firm is designated or utilized as an exclusive provider. Audits
36 conducted pursuant to this paragraph shall be submitted annually
37 to the commissioner for review.

38 (j) The commissioner shall examine the association to the same
39 extent as, and in accordance with, the requirements of Article 4
40 (commencing with Section 730) of Chapter 1 of Part 2 of Division

2, which sets forth the examination requirements applicable to admitted insurers. A copy of the examination report shall be filed with the Chairpersons of the Senate and Assembly Committees on Insurance no later than December 31 of the year the report is completed.

SEC. 5. Section 1063.50 of the Insurance Code is amended to read:

1063.50. The California Insurance Guarantee Association is authorized to pay and discharge certain claims of insolvent insurers as defined in Section 1063.1 through the collection of premiums from its members, which amounts are limited by law and take time to assess and collect. If a natural disaster such as a major earthquake or fire were to occur in California, California's housing stock could be adversely affected and there could be an immediate need for large sums of money to pay covered claims of insolvent insurers. This article provides for the ability of the department to issue bonds to more expeditiously and effectively provide for the payment of covered claims that arise as a result of a natural disaster or the insolvencies of insurance companies providing workers' compensation insurance. The bonds are to be paid from the premiums assessed by the department or by CIGA for those purposes *and the other funds provided pursuant to subdivision (b) of Section 1063.53. Premiums to repay bonds issued for payment of workers' compensation benefits shall be assessed, to the extent necessary, for the workers' compensation claims category.* It is a public purpose and in the best interest of the public health, safety, and general welfare of the residents of this state to provide for the issuance of bonds by the department to pay claimants and policyholders having covered claims against insolvent insurers operating in this state.

~~SEC. 3.~~

SEC. 6. Section 1063.52 of the Insurance Code is amended to read:

1063.52. The Insurance Assessment Bond Fund is hereby created in the State Treasury. Proceeds from the sale of bonds issued pursuant to this article and insurance assessments to repay bonds issued pursuant to this article shall be deposited in the Insurance Assessment Bond Fund.

All money in the fund is hereby continuously appropriated to the department for the exclusive purpose of carrying out the purposes

1 of this part, and, notwithstanding the provisions of Chapter 2
2 (commencing with Section 12850) of Part 2.5 of Division 3 of
3 Title 2 of the Government Code or the provisions of Article 2
4 (commencing with Section 13320) of Chapter 3 of Part 3 of
5 Division 3 of Title 2 of the Government Code, or the provisions of
6 Sections 11032 and 11033 of the Government Code, application
7 of the fund shall not be subject to the supervision or budgetary
8 approval of any other officer or division of state government. The
9 department may pledge any or all of the moneys in the fund as
10 security for payment of the principal of, and interest and
11 redemption premiums, if any, on, or for reserve funds established
12 as security for, bonds issued pursuant to this article, and, for that
13 purpose or as necessary or convenient to the accomplishment of
14 any other purpose under this article, may divide the fund into
15 separate accounts.

16 ~~SEC. 4.~~

17 *SEC. 7.* Section 1063.53 of the Insurance Code is amended to
18 read:

19 1063.53. (a) In the event a natural disaster such as an
20 earthquake or fire results in covered claim obligations currently
21 payable and owed by the association in excess of its capacity to pay
22 from current funds and current premium assessments allowable
23 under Section 1063.5, and upon a declaration of emergency by the
24 Governor or the President of the United States, the board, in its sole
25 discretion, may by resolution request the department to issue
26 bonds pursuant to this article to provide funds for the payment of
27 covered claims and expenses related thereto. In addition, in the
28 event CIGA determines that the insolvency of one or more
29 member insurers providing workers' compensation insurance will
30 result in covered claim obligations for workers' compensation
31 claims in excess of CIGA's capacity to pay from current funds, the
32 board, in its sole discretion, may by resolution request the
33 department to issue bonds pursuant to this article, *or the California*
34 *Infrastructure and Economic Development Bank to issue bonds*
35 *pursuant to Division 1 of Title 6.7 of the Government Code, to*
36 *provide funds for the payment of the covered claims and the*
37 *adjusting and defense expenses relating to those claims. Any*
38 *bonds issued to provide funds for covered claim obligations for*
39 *workers' compensation claims shall be issued prior to January 1,*
40 ~~2005~~ *2007, in an aggregate principal amount not to exceed one*

1 billion five hundred million dollars (\$1,500,000,000), and any
 2 bonds issued to refund those bonds shall not have a ~~term~~ final
 3 maturity exceeding the ~~term final maturity of the original bonds~~
 4 ~~issued. Should the bonds be issued, the final maturity of the~~
 5 ~~original bonds issued. The proceeds of bonds issued for workers'~~
 6 ~~compensation claims may be used by CIGA to reimburse funds~~
 7 ~~advanced or temporarily loaned from other categories to fund~~
 8 ~~workers' compensation claims. Should the bonds be issued, the~~
 9 department shall have the authority, notwithstanding any other
 10 limit on assessments, to levy upon member insurers insurance
 11 assessments in the amount necessary to pay the principal of and
 12 interest on the bonds, and to meet other requirements established
 13 by agreements relating to the bonds. The department ~~may~~ shall
 14 enter into an agreement with CIGA for CIGA to act as agent for
 15 the department to collect the assessments. *The assessments shall*
 16 *be collected only from the member insurers providing the category*
 17 *of insurance for which the bonds are issued, with separate*
 18 *assessments required for each category of insurance, in the same*
 19 *manner as separate premium payments are collected to pay the*
 20 *claims and costs allocated to that category pursuant to Section*
 21 *1063.5.*

22 The department may assume the obligation to pay the covered
 23 claims of insolvent insurers for the purpose of paying the claims
 24 with the proceeds of the bonds. The obligation of the department
 25 to pay claims shall be a limited obligation payable only out of the
 26 proceeds of the bonds. The department shall enter into an
 27 agreement with CIGA for CIGA to act as agent of the department
 28 to adjust and administer the payment of the claims. Premium
 29 payments collected pursuant to this authority may only be used for
 30 servicing the bond obligations provided for in this section and may
 31 be pledged for that purpose. Premium assessments made pursuant
 32 to this section shall also be subject to the surcharge provisions in
 33 Sections 1063.14 and 1063.145.

34 (b) In addition to the premium assessments provided for in this
 35 section, the board in its discretion and subject to other obligations
 36 of the association, may utilize current funds of the association,
 37 premium assessments made under Section 1063.5, and advances
 38 or dividends received from the liquidators of insolvent insurers to
 39 pay the principal and interest on any bonds issued at the board's
 40 request, *and shall utilize, to the extent feasible, these recoveries*

1 *from the liquidators of the estates of insolvent workers'*
2 *compensation carriers to pay bonds issued at the board's request*
3 *to fund workers' compensation claims. Any and all of these funds*
4 *and revenues may be pledged by the board, in its discretion, to*
5 *secure the bonds.*

6 ~~SEC. 5.~~

7 SEC. 8. Section 1063.54 of the Insurance Code is amended to
8 read:

9 1063.54. Notwithstanding any other provision of law, the
10 department, in accordance with this article and at the request of the
11 board pursuant to Section 1063.53 may issue bonds in order to
12 provide for the payment of covered claims of insolvent insurers or
13 in order to make loans to CIGA, which moneys CIGA is hereby
14 authorized to borrow, to provide for the payment of covered claims
15 of insolvent insurers. *In lieu of the department issuing bonds, the*
16 *department or CIGA may request the California Infrastructure and*
17 *Economic Development Bank to issue bonds pursuant to Division*
18 *1 of Title 6.7 of the Government Code to provide funds for the*
19 *payment of covered claims of insolvent insurance companies, and*
20 *the bonds issued by the California Infrastructure and Economic*
21 *Development Bank for that purpose shall be payable from the*
22 *assessments and other sources that would be available for bonds*
23 *issued by the department for that purpose, as shall be specified in*
24 *the request for the issuance of the bonds.* For this purpose, the
25 department or CIGA may levy upon member insurers insurance
26 assessments in the amounts necessary to pay the principal of and
27 interest on the bonds and to meet other requirements established
28 by agreements relating to the bonds. The department shall enter
29 into an agreement with CIGA for CIGA to act as agent for the
30 department to collect the assessments. The department may
31 assume the obligation to pay the covered claims of insolvent
32 insurers for the purpose of paying the claims with the proceeds of
33 the bonds. The obligation of the department to pay claims shall be
34 a limited obligation payable only out of the proceeds of the bonds.
35 The department shall enter into an agreement with CIGA for CIGA
36 to act as agent of the department to adjust and administer the
37 payment of claims ~~and to manage the proceeds of the bonds.~~

38 ~~SEC. 6.~~

39 SEC. 9. Section 1063.55 of the Insurance Code is amended to
40 read:

1063.55. The bonds shall be authorized by order of the commissioner, shall be in the form, shall bear the date or dates, and shall mature at the time or times as the order or the indenture authorized by the order may provide, except that no bond shall mature more than 20 years from the date of its issue and no bond to finance the payment of workers' compensation covered claims shall mature more than ~~10~~ 13 years from the date of its issue. The bonds may be issued as serial bonds or as term bonds, or as a combination thereof, and, notwithstanding any other provision of law, the amount of principal of, or interest on, bonds maturing at each date of maturity need not be equal. The bonds shall bear interest at the rate or rates, variable or fixed or a combination thereof, be in the denominations, be in the form, either coupon or registered, carry the registration privileges, be executed in the manner, be payable in the medium of payment at the place or places within or without the state, be subject to the terms of redemption, contain the terms and conditions, and be secured by the covenants as the order or indenture may provide. *The order or indenture may provide for the proceeds of the bonds and funds securing the bonds to be invested in any securities and investments, including investment agreements, as specified therein.* The department may enter into or authorize any ancillary obligations or derivative agreements as it determines necessary or desirable to manage interest rate risk or security features related to the bonds. The bonds shall be sold at public or private sale by the Treasurer at, above, or below the principal amount thereof, on the terms and conditions and for the consideration in the medium of payment that the Treasurer shall determine prior to the sale.

~~SEC. 7.~~ *All bonds issued by the department shall be signed by the commissioner and by the Executive Director of CIGA, and shall bear the seal of the department. The signatures may be by facsimile. In case any officer whose signature appears on the bonds ceases to hold that office before the delivery of the bonds to the purchaser, his or her signature shall nevertheless be valid and sufficient for all purposes in the same manner as if he or she had remained in the office until the delivery of the bonds.*

SEC. 10. Section 1063.67 of the Insurance Code is amended to read:

1063.67. The department is authorized and empowered to employ financial consultants, advisers, legal counsel, and

1 accountants as may be necessary in its judgment in connection
2 with the issuance and sale of any bonds or other obligations of the
3 department. Payment for these services may be made out of the
4 proceeds of the sale of the bonds or other obligations. The
5 department may delegate to the Treasurer ~~or CIGA~~ the
6 employment of those professionals. *Pursuant to Chapter 9 of*
7 *Division 6 of Title 1 of the Government Code, the Treasurer shall*
8 *be the sole agent for sale of the bonds of the department.*

